

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hanover-Horton Schools	County Jackson
Audit Date June 30, 2005	Opinion Date July 15, 2005	Date Accountant Report Submitted to State September 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road		City Horton	State MI
Zip 49246			
Accountant Signature 			

HANOVER-HORTON SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2005

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

June 30, 2005

Board of Education

Kathie Michel	President
Leon Densmore	Vice President
Chris Murphy	Secretary
Kirk Mercer	Treasurer
Charles Snow	Board Member
Brian Brockie	Board Member
Chris Vincent	Board Member

Management

Linda Brian	Superintendent
Andrienne Spencer	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney
Rosenfeld, Grover, and Frang, P.C.	Attorney

HANOVER-HORTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hanover-Horton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and 29-31 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hanover-Horton School District

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2005 on our consideration of Hanover-Horton School District's internal control over financial reporting and out tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements, and statistical data, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Hanover-Horton School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

July 15, 2005

This section of Hanover-Horton School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hanover-Horton School District financially as a whole. The *District-Wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Debt Funds, and Capital Projects Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities - The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2005 and 2004:

TABLE 1	Governmental Activities (In Millions)	
	2005	2004
ASSETS		
Current and other assets	\$ 4.2	\$ 4.1
Capital assets - Net of accumulated depreciation	9.4	9.8
TOTAL ASSETS	13.6	13.9
LIABILITIES		
Current liabilities	1.7	1.6
Long-term liabilities	8.2	8.8
TOTAL LIABILITIES	9.9	10.4
NET ASSETS		
Invested in property and equipment - Net of related debt	0.6	0.4
Restricted	1.1	1.3
Unrestricted	2.0	1.8
TOTAL NET ASSETS	\$ 3.7	\$ 3.5

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3.7 million at June 30, 2005. Capital assets, net of related debt totaling \$0.6 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$2.0 million) was unrestricted.

The \$2.0 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2005 and 2004.

TABLE 2	Governmental Activities	
	(In Millions)	
REVENUE	2005	2004
Program Revenue		
Charges for services	\$ 0.7	\$ 0.6
Grants and categoricals	0.5	0.5
General Revenue		
Property taxes	1.4	1.4
State foundation allowance	8.7	8.6
Other	0.1	0.1
TOTAL REVENUE	\$ 11.4	\$ 11.2

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

FUNCTION/PROGRAM EXPENSES	(In Millions)	
	2005	2004
Instruction	\$ 6.1	\$ 5.7
Support Services	3.5	4.0
Food Services	0.4	0.4
Athletics	0.3	0.3
Interest on Long-Term Debt	0.4	0.4
Depreciation (unallocated)	0.5	0.5
TOTAL FUNCTION/PROGRAM EXPENSES	11.2	11.3
INCREASE <DECREASE> IN NET ASSETS	\$ 0.2	\$ -0.1

As reported in the statement of activities, the cost of all of our governmental activities this year was \$11.2 million. Certain activities were partially funded from those who benefited from the programs (\$0.7 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.5 million). We paid for the remaining “public benefit” portion of our governmental activities with \$1.4 million in taxes, \$8.7 million in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$0.2 million. Key reasons for the change in net assets were consistent revenues and limiting expenditures. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.1 million, which is a decrease of \$0.1 million from last year. The primary reasons for the decrease are expenditures. The General Fund, the principal operating fund, saw fund balance increase \$184,368 to \$2,025,653, which is more than the budgeted decrease of \$159,753.

- Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$15,616.
- Combined, the Debt Service Funds showed a fund balance decrease of \$191,386. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Two consecutive years of executive cuts in funding resulted in a very conservative approach toward discretionary funding. Teachers were allocated smaller budgets for supplies and materials, reductions occurred in many of the maintenance line items as well as cuts in after school programs, field trips and summer school.

Our negotiated agreement with our employee groups generated a savings in health insurance costs as we changed from a traditional health plan to a PPO type plan called MESSA Choices. The agreement was reached after school started so the change went into effect November 1, 2004.

An end of the year \$30,000 payment from the JCISD for underpayment of 03-04 special education services helped increase revenues. Overestimation of special education costs for the 04-05 school year resulted in projected expenditures being higher than actual expenditures.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2005, the School District had \$14.5 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$67,628 or 1 percent, from last year.

	2005	2004
Land and Improvements	\$ 2,019,727	\$ 2,019,727
Buildings and Improvements	11,004,387	10,941,576
Buses and Other Vehicles	844,221	844,221
Furniture and Equipment	612,049	607,232
Total Capital Assets	14,480,384	14,412,756
Less Accumulated Depreciation	5,057,382	4,626,527
Net Capital Assets	\$ 9,423,002	\$ 9,786,229

The additions for this year included bathroom improvements and technology. No Debt was issued for these additions.

Debt

At the end of this year, the School District had \$8.8 million in bonds and loans outstanding versus \$9.4 million in the previous year - a decrease of 6 percent. Debt consisted of the following:

	2005	2004
General Obligation Bonds	\$ 8,732,356	\$ 9,252,356
Bus Loans	113,171	192,756
	\$ 8,845,527	\$ 9,445,112

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$8.8 million is significantly below the statutorily imposed limit.

Economic Factors And Next Year's Budgets And Rates

Our elected officials and administration considered many factors when setting the School District's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent of the February 2005 student count and 75 percent of the September 2005 student count. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will remain unchanged from the estimates used in creating the 2005 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hanover-Horton School District with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 237 Farview Street, Horton, Michigan 49246.

HANOVER-HORTON SCHOOL DISTRICT

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities	
	2005	2004
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,525,490	\$ 2,523,894
Due From Other Governmental Units	1,609,920	1,598,439
Accounts Receivable	9,572	11,673
Inventories	4,230	2,615
Prepaid Expenditures	---	7,441
Total Current Assets	4,149,212	4,144,062
Non-Current Assets		
Capital Assets	14,480,384	14,412,756
Less: Accumulated Depreciation	-5,057,382	-4,626,527
Total Non-Current Assets	9,423,002	9,786,229
TOTAL ASSETS	\$ 13,572,214	\$ 13,930,291
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 3,817	\$ 8,527
Accrued Salaries and Expenses	1,001,212	954,763
Accrued Interest	69,781	73,905
Bonds and Loans Payable, Due within One Year	620,585	597,166
Total Current Liabilities	1,695,395	1,634,361
Non-Current Liabilities		
Bonds Payable	8,193,211	8,732,356
Loans Payable	31,731	115,590
Total Non-Current Liabilities	8,224,942	8,847,946
TOTAL LIABILITIES	9,920,337	10,482,307
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	577,785	341,117
Restricted for Debt Service	119,953	311,339
Restricted for Capital Projects	921,657	966,844
Unrestricted	2,032,482	1,828,684
TOTAL NET ASSETS	3,651,877	3,447,984
TOTAL LIABILITIES AND NET ASSETS	\$ 13,572,214	\$ 13,930,291

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

		Program Revenues		Governmental Activities	
		Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
	Expenses			2005	2004
FUNCTIONS/PROGRAMS					
Governmental Activities					
Instruction	\$ 6,084,542	\$ 286,871	\$ 131,193	\$ -5,666,478	\$ -5,456,550
Support Services	3,517,086	68,921	186,180	-3,261,985	-3,685,541
Food Services	415,539	285,445	144,329	14,235	11,172
Athletics	284,114	46,294	---	-237,820	-225,156
Community Services	38,412	30,396	---	-8,016	3,604
Interest on Long-Term Debt	407,080	---	---	-407,080	-422,490
Depreciation (Unallocated)	469,071	---	---	-469,071	-458,881
Total Governmental Activities	<u>\$ 11,215,844</u>	<u>\$ 717,927</u>	<u>\$ 461,702</u>	<u>-10,036,215</u>	<u>-10,233,842</u>
General Revenue					
Taxes					
Property Taxes, Levied for General Operations				736,969	702,731
Property Taxes, Levied for Debt Service				713,811	667,893
State of Michigan Aid, Unrestricted				8,702,935	8,672,950
Interest Earnings				51,304	24,580
Other				<u>35,089</u>	<u>90,293</u>
Total General Revenue				<u>10,240,108</u>	<u>10,158,447</u>
CHANGE IN NET ASSETS				203,893	-75,395
NET ASSETS - BEGINNING OF YEAR				<u>3,447,984</u>	<u>3,523,379</u>
NET ASSETS - END OF YEAR				<u>\$ 3,651,877</u>	<u>\$ 3,447,984</u>

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	Debt Service	Capital Projects	Other Non-Major Governmental Funds	2005 Total Governmental Funds	2004 Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,372,710	\$ 114,847	\$ 921,657	\$ 116,276	\$ 2,525,490	\$ 2,523,894
Accounts Receivable	4,466	5,106	---	---	9,572	11,673
Due from Other Governmental Units	1,609,920	---	---	---	1,609,920	1,598,439
Due from Other Funds	39,769	---	---	---	39,769	433,227
Inventories	---	---	---	4,230	4,230	2,615
Prepaid Expenditures	---	---	---	---	---	7,441
TOTAL ASSETS	\$ 3,026,865	\$ 119,953	\$ 921,657	\$ 120,506	\$ 4,188,981	\$ 4,577,289
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ 3,817	\$ 3,817	\$ 8,527
Accrued Salaries and Withholdings	1,001,212	---	---	---	1,001,212	954,763
Due to Other Funds	---	---	---	39,769	39,769	433,227
Deferred Revenue	---	---	---	---	---	---
TOTAL LIABILITIES	1,001,212	---	---	43,586	1,044,798	1,396,517
FUND BALANCES						
Reserved for Inventories	---	---	---	4,230	4,230	2,615
Reserved for Debt Service	---	119,953	---	---	119,953	311,339
Reserved for Capital Projects	---	---	921,657	---	921,657	966,844
Unreserved and Undesignated	2,025,653	---	---	---	2,025,653	1,841,285
Unreserved and Undesignated, Food Services	---	---	---	72,690	72,690	58,689
Unreserved and Undesignated, Athletics	---	---	---	---	---	---
TOTAL FUND BALANCES	2,025,653	119,953	921,657	76,920	3,144,183	3,180,772
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,026,865	\$ 119,953	\$ 921,657	\$ 120,506	\$ 4,188,981	\$ 4,577,289
TOTAL GOVERNMENTAL FUND BALANCES						\$ 3,144,183
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:						
Cost of the Capital Assets is						\$ 14,480,384
Accumulated Depreciation is						<u>-5,057,382</u>
						<u>9,423,002</u>
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund						
Bonds Payable						-8,732,356
Loans Payable						<u>-113,171</u>
Accrued interest is not included as a liability in governmental funds						<u>-69,781</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES						<u>\$ 3,651,877</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	General	Debt Service	Capital Projects	Other Non-Major Governmental Funds	2005 Totals	2004 Totals
REVENUE						
Local Sources	\$ 1,175,639	\$ 728,717	\$ 17,624	\$ 333,120	\$ 2,255,100	\$ 2,057,593
State Sources	8,835,866	---	---	33,067	8,868,933	8,850,452
Federal Sources	184,442	---	---	111,262	295,704	291,481
Miscellaneous	---	---	---	---	---	---
TOTAL REVENUE	10,195,947	728,717	17,624	477,449	11,419,737	11,199,526
EXPENDITURES						
Current						
Instruction	6,084,542	---	---	---	6,084,542	5,737,887
Supporting Services	3,518,812	---	---	699,653	4,218,465	4,218,367
Community Services	38,412	---	---	---	38,412	32,803
Debt Service	86,492	920,103	---	---	1,006,595	947,962
Capital Outlay	45,501	---	62,811	---	108,312	715,697
TOTAL EXPENDITURES	9,773,759	920,103	62,811	699,653	11,456,326	11,652,716
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	422,188	-191,386	-45,187	-222,204	-36,589	-453,190
OTHER FINANCING SOURCES <USES>						
Loan Proceeds	---	---	---	---	---	78,028
Operating Transfers In	---	---	---	237,820	237,820	625,156
Operating Transfers Out	-237,820	---	---	---	-237,820	-625,156
TOTAL OTHER FINANCING SOURCES <USES>	-237,820	---	---	237,820	---	78,028
NET CHANGE IN FUND BALANCES	184,368	-191,386	-45,187	15,616	-36,589	-375,162
FUND BALANCES - BEGINNING OF YEAR	1,841,285	311,339	966,844	61,304	3,180,772	3,555,934
FUND BALANCES - END OF YEAR	\$ 2,025,653	\$ 119,953	\$ 921,657	\$ 76,920	\$ 3,144,183	\$ 3,180,772

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -36,589**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-469,071	
Capital Outlay	<u>105,846</u>	
		-363,225

- Loan proceeds recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt) ---

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 4,124

- Repayments of bond and loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 599,583

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 203,893**

STATEMENT OF FIDUCIARY NET ASSETS**JUNE 30, 2005**

ASSETS	2005	2004
Cash and Cash Equivalents	\$ 207,759	\$ 228,014
Accounts Receivable		---
TOTAL ASSETS	\$ 207,759	\$ 228,014
LIABILITIES		
Due to Others	\$ ---	\$ ---
Due to Student Groups	207,759	228,014
TOTAL LIABILITIES	\$ 207,759	\$ 228,014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hanover-Horton School District is located in Jackson County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION**District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Debt Retirement Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Retirement Funds maintained by the School District are to retire outstanding 1999, 2002 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The school maintains one capital project fund.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Jackson and Hillsdale Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in one financial institution. At June 30, 2005, the book value of the School District's deposits was \$-76,159 and the bank balance was \$51,567. Of the bank balance, \$51,567 was covered by federal depository insurance and \$0 was uninsured and uncollateralized.

Statutes authorize the School District to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, U.S. government or federal agency obligation repurchase agreements, obligations of the State, Certificates of Deposit, Commercial paper rated prime, Bankers' acceptances, and Mutual funds and Investment pools composed entirely of instruments that are legal for direct investment by a School District.

The School District invests surplus funds with the Comerica Bank School Cash Investment Fund in investment trust accounts in accordance with Sections 622, 1221, and 1223 of the School Code.

Investments are stated at cost, which approximates market value. The Comerica Bank School Cash Investment Fund is categorized as a mutual fund. Each School District owns a prorata share of each investment or deposit, which is held in the name of the fund.

The amount of investments as of June 30, 2005, which are not required to be categorized as to level of risk are as follows:

	<u>Carrying Amount</u>	<u>Book Amount</u>
General Fund	\$ 1,471,793	\$ 1,471,793
Cafeteria Fund	104,068	104,068
Debt Retirement Fund	114,951	114,225
Capital Projects Fund	921,627	921,627
Trust and Agency Fund	197,645	197,645
	<u>\$ 2,810,084</u>	<u>\$ 2,809,358</u>

B. TYPES OF DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the District's name.
2. Uninsured or unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

NOTE 3 - INVENTORY

There is \$4,230 of inventory in the Special Revenue Fund - Food Service, with \$1,794 of this amount representing inventory of Federal commodities.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2005, is comprised of the following:

General Fund

State of Michigan - State Aid	\$ 1,604,251
- Title I	3,938
- Improving Teacher Quality	<u>1,731</u>
Total Due From Other Governmental Units	<u><u>\$ 1,609,920</u></u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2005, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	<u>\$ 39,769</u>	Food Service	<u>\$ 39,769</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Assets not being depreciated:				
Land	\$ 1,150	\$ ---	\$ ---	\$ 1,150
Capital assets being depreciated:				
Land improvement	2,018,577	---	---	2,018,577
Building and building improvements	10,941,576	63,811	1,000	11,004,387
Buses and other vehicles	844,221	---	---	844,221
Furniture and equipment	607,232	43,035	38,218	612,049
Subtotal	14,411,606	106,846	39,218	14,479,234
Accumulated depreciation:				
Land Improvements	80,472	40,372	---	120,844
Building and building improvements	3,718,516	262,531	---	3,981,047
Buses and other vehicles	415,111	79,203	---	494,314
Furniture and equipment	412,428	86,965	38,216	461,177
Subtotal	4,626,527	469,071	38,216	5,057,382
Net capital assets being depreciated	9,785,079	-362,225	1,002	9,421,852
Net capital assets	\$ 9,786,229	\$ -362,225	\$ 1,002	\$ 9,423,002

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2005, of \$678,686 represents the unpaid portion of teacher contracts for the 2004-05 school year. On these salaries there are also fringe benefits payable at year-end totaling \$322,526.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2005, long-term debt changed as follows:

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bond Issue	Balance 6/30/04	Additional Debt	2004-05 Payments	Balance 6/30/05
1994 Debt	\$ 195,000	\$ ---	\$ 195,000	\$ ---
1999 Debt	7,085,000	---	275,000	6,810,000
2002 Debt	1,905,000	---	50,000	1,855,000
Durant Debt	67,356	---	---	67,356
Comerica Bus Loan	43,664	---	21,268	22,396
Comerica Bus Loan	29,962	---	9,570	20,392
Comerica Bus Loan	41,032	---	9,663	31,369
Comerica Bus Loan	78,028	---	39,014	39,014
	<u>\$ 9,445,042</u>	<u>\$ ---</u>	<u>\$ 599,515</u>	<u>\$ 8,845,527</u>

Amounts needed over the next five years for debt principal payments are as follows:

	Bus Loans	1995 Refunding Debt	2002 Debt	Durant Debt	Total
2005-06	\$ 81,440	\$ 465,000	\$ 50,000	\$ 24,145	\$ 620,585
2006-07	20,867	465,000	50,000	5,345	541,207
2007-08	10,869	465,000	75,000	5,600	556,469
2008-09	---	460,000	125,000	5,867	590,867
2009-10	---	455,000	155,000	6,147	616,147
	113,171	2,310,000	455,000	47,104	2,925,275
2010 - Maturity	---	4,500,000	1,400,000	20,252	5,920,252
	<u>\$ 113,171</u>	<u>\$ 6,810,000</u>	<u>\$ 1,855,000</u>	<u>\$ 67,356</u>	<u>\$ 8,845,527</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a multiple-employer public employee retirement system. MPERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2005, the rate was 14.87%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990 or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2005, the School District contributed \$870,400 to the Retirement System, which is 14.87% of current fiscal year covered compensation of \$5,853,395. The rate for the current contract year is 14.87%, which the School District paid on all covered compensation. Employees contributed an additional \$178,527 or 3.87% of eligible wages of \$4,613,101. Total wages of the district totaled \$6,120,964.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2003, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$44.8 billion. The total pension benefit obligation has increased by \$2.9 billion from September 30, 2002 to September 30, 2003.

The System's net assets available for benefits on that date (valued at market) were \$38.7 billion leaving an unfunded actuarial accrued liability of \$6.1 billion. Ten-year historical trend information is presented in the System's September 30, 2004, comprehensive annual financial report.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2005, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2005, are as follows:

1. \$4,230 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
2. The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2005, Unreserved General Fund Balance of \$2,025,653 compares to June 30, 2004, Unreserved General Fund Balance of \$1,841,285.

NOTE 12 - COMPENSATED ABSENCES

The School's policy is not to compensate employees for vacation time not used during the school year. No provision is made in these financial statements for absences. Accumulated sick pay policies are as follows:

Teachers

Credited with 11 sick leave days per year; maximum accumulation of 130 days allowed; amounts over 130 days not used are paid at a rate of \$55 per day. A retirement leave benefit of \$55 per day (maximum \$750) is paid to teachers, employed by the District for ten years or more, retiring from the District.

Support Personnel

Credited with one day per month for months worked; maximum accumulation of 120 days allowed; amounts over 120 days not used are paid at a rate of 50% of the employee's daily rate. A retirement leave benefit of 50% of the daily rate (maximum \$500) is paid upon retirement from the District.

REQUIRED SUPPLEMENTAL INFORMATION

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 1,004,042	\$ 1,165,047	\$ 1,175,639	\$ 10,592
State Sources	8,878,318	8,681,945	8,835,866	153,921
Federal Sources	210,488	234,496	184,442	-50,054
Other Sources	---	---	---	---
TOTAL REVENUE	10,092,848	10,081,488	10,195,947	114,459
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,556,369	5,513,087	5,452,424	60,663
Added Needs	716,934	646,611	632,118	14,493
Supporting Services				
Pupil	516,505	480,910	443,668	37,242
Instructional Staff	176,132	179,722	178,306	1,416
Administration	1,185,888	1,215,944	1,189,183	26,761
Business Services	1,682,383	1,735,802	1,707,655	28,147
Community Services	44,676	44,676	38,412	6,264
Capital Outlay	53,000	68,543	45,501	23,042
Debt Service	78,349	86,918	86,492	426
Other Uses - Operating Transfers	270,374	269,028	237,820	31,208
TOTAL EXPENDITURES	10,280,610	10,241,241	10,011,579	229,662
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-187,762	-159,753	184,368	344,121
BUDGETARY FUND BALANCE - JULY 1, 2004	1,841,285	1,841,285	1,841,285	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 1,653,523	\$ 1,681,532	\$ 2,025,653	\$ 344,121

BUDGETARY COMPARISON SCHEDULE – DEBT FUNDS**YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 715,641	\$ 724,044	\$ 728,717	\$ 4,673
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Other Sources	---	---	---	---
TOTAL REVENUE	715,641	724,044	728,717	4,673
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	---	---	---	---
Debt Service	912,454	923,417	920,103	3,314
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	912,454	923,417	920,103	3,314
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-196,813	-199,373	-191,386	7,987
BUDGETARY FUND BALANCE - JULY 1, 2004	311,339	311,339	311,339	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 114,526	\$ 111,966	\$ 119,953	\$ 7,987

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – CAPITAL PROJECT FUND

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 4,900	\$ 9,502	\$ 17,624	\$ 8,122
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Other Sources	---	---	---	---
TOTAL REVENUE	4,900	9,502	17,624	8,122
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	200,000	200,000	62,811	137,189
Debt Service	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	200,000	200,000	62,811	137,189
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-195,100	-190,498	-45,187	145,311
BUDGETARY FUND BALANCE - JULY 1, 2004	966,844	966,844	966,844	---
BUDGETARY FUND BALANCE - JUNE 30, 2005	\$ 771,744	\$ 776,346	\$ 921,657	\$ 145,311

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

General Fund**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL****FISCAL YEAR ENDED JUNE 30, 2005**

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	\$ 738,706	\$ 736,969	\$ -1,737	\$ 702,731
Interest and Penalties - Delinquent Taxes	5,548	7,671	2,123	3,292
Tuition	4,325	5,525	1,200	2,025
Sale of School Property	500	500	---	13,180
Refunds	8,747	13,451	4,704	57,669
Interest Earned	20,100	21,851	1,751	11,948
Rental of School Facilities	9,496	8,997	-499	12,825
Transportation	15,200	18,103	2,903	18,244
Kids Club Fees	30,250	30,396	146	36,407
Career Prep	23,000	23,001	1	23,000
Other	12	12	---	691
Data Processing Support	27,817	27,817	---	25,860
Special Education	281,346	281,346	---	147,360
TOTAL REVENUE FROM LOCAL SOURCES	1,165,047	1,175,639	10,592	1,055,232
STATE SOURCES				
Non Plaintiff Durant Settlement	10,543	10,543	---	10,543
State Aid	8,548,987	8,702,935	153,948	8,672,950
Adv. and Acc. Learning	---	193	193	---
Driver Education	---	---	---	6,026
Special Education	22,448	22,239	-209	17,742
At Risk	99,967	99,956	-11	111,920
TOTAL REVENUE FROM STATE SOURCES	8,681,945	8,835,866	153,921	8,819,181
FEDERAL SOURCES				
FIA Grant	---	---	---	3,694
Title I	143,727	131,193	-12,534	131,952
Title II	86,541	51,480	-35,061	42,126
Drug Free	1,800	200	-1,600	---
Title V	1,986	1,127	-859	---
Homeland Security	442	442	---	---
Title VI	---	---	---	95
TOTAL REVENUE FROM FEDERAL SOURCES	234,496	184,442	-50,054	177,867
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 10,081,488	\$ 10,195,947	\$ 114,459	\$ 10,052,280

HANOVER-HORTON SCHOOL DISTRICT

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Instruction				
BASIC PROGRAMS				
Elementary School	\$ 1,994,342	\$ 1,982,619	\$ 11,723	\$ 1,937,346
Middle School	1,466,908	1,461,283	5,625	1,307,545
High School	1,929,022	1,898,283	30,739	1,837,484
Summer School	101,116	98,240	2,876	---
Other	21,699	11,999	9,700	49,302
TOTAL BASIC PROGRAMS	5,513,087	5,452,424	60,663	5,131,677
ADDED NEEDS				
Special Education	502,893	500,925	1,968	467,624
Compensatory Education	143,718	131,193	12,525	131,952
Other	---	---	---	6,634
TOTAL ADDED NEEDS	646,611	632,118	14,493	606,210
Total Instruction	6,159,698	6,084,542	75,156	5,737,887
Supportive Services				
PUPIL				
Guidance	226,575	224,168	2,407	251,576
Extra Duties/Aides	174,435	172,817	1,618	214,241
Staff Development	79,900	46,683	33,217	---
TOTAL PUPIL	480,910	443,668	37,242	465,817
INSTRUCTIONAL STAFF				
Library	179,722	178,306	1,416	168,467
Audio Visual	---	---	---	6,992
TOTAL INSTRUCTIONAL STAFF	179,722	178,306	1,416	175,459
ADMINISTRATION				
Board of Education	123,593	114,767	8,826	104,975
Central Administration	360,930	355,181	5,749	317,192
School Administration	731,421	719,235	12,186	771,135
TOTAL ADMINISTRATION	\$ 1,215,944	\$ 1,189,183	\$ 26,761	\$ 1,193,302

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Supportive Services - Continued				
BUSINESS SERVICES				
Operation and Maintenance	\$ 1,061,834	\$ 1,038,453	\$ 23,381	\$ 1,093,156
Pupil Transportation	665,923	664,842	1,081	529,369
Technology	70,963	67,661	3,302	24,403
Other	24,000	23,191	809	58,792
TOTAL BUSINESS SERVICES	1,822,720	1,794,147	28,573	1,705,720
Total Supportive Services	3,699,296	3,605,304	93,992	3,540,298
Community Services				
Kids Club	34,986	30,501	4,485	32,803
Other	9,690	7,911	1,779	---
Total Community Services	44,676	38,412	6,264	32,803
Capital Outlay				
Site Improvements	---	---	---	177,735
Other	68,543	45,501	23,042	158,638
Total Capital Outlay	68,543	45,501	23,042	336,373
TOTAL EXPENDITURES	\$ 9,972,213	\$ 9,773,759	\$ 198,454	\$ 9,647,361
EXCESS REVENUE OVER EXPENDITURES	109,275	422,188	312,913	404,919
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	---	---	---	78,028
Operating Transfers In	---	---	---	---
Operating Transfers Out	-269,028	-237,820	31,208	-625,156
TOTAL OTHER FINANCING SOURCES <USES>	-269,028	-237,820	31,208	-547,128
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -159,753	184,368	\$ 344,121	\$ -142,209
FUND BALANCE - JULY 1, 2004		1,841,285		
FUND BALANCE - JUNE 30, 2005		\$ 2,025,653		

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2005

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash and Investments	\$ 116,276	\$ ---	\$ 116,276
Due From Other Governmental Units	---	---	---
Due From Other Funds	---	---	---
Prepaid Expenses	---	---	---
Inventory	4,230	---	4,230
TOTAL ASSETS	\$ 120,506	\$ ---	\$ 120,506
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ 39,769	\$ ---	\$ 39,769
Accounts Payable	3,817	---	3,817
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	43,586	---	43,586
FUND EQUITY			
Fund Balance - Reserved for Inventory	4,230	---	4,230
Fund Balance - Unreserved	72,690	---	72,690
TOTAL FUND EQUITY	76,920	---	76,920
TOTAL LIABILITIES AND FUND EQUITY	\$ 120,506	\$ ---	\$ 120,506

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
<u>Food Services</u>			
Goods Sold	\$ 4,180	\$ 5,148	\$ 968
Student Meals	190,120	192,459	2,339
Adult Meals	15,151	14,981	-170
Ala Carte Meals	53,306	54,537	1,231
Breakfast	13,281	13,722	441
Vending Machine Sales	4,025	4,428	403
State Aid	25,000	33,067	8,067
Federal Aid	86,434	102,170	15,736
Federal USDA Commodities in Kind	10,000	9,092	-908
Other Income	130	170	40
Interest Income	1,265	1,381	116
<u>Athletic Activities</u>			
Admission to Games	---	---	---
TOTAL REVENUE	402,892	431,155	28,263
EXPENDITURES			
Salaries	134,825	134,257	568
Fringe Benefits	89,636	89,509	127
Dues and Fees	1,410	1,317	93
Purchased Services	4,536	3,660	876
Food and Supplies	192,511	181,306	11,205
Travel and Conferences	1,825	1,055	770
Miscellaneous	1,355	1,621	-266
Repairs	3,500	2,814	686
Sales Tax	818	---	818
Capital Outlay	---	---	---
TOTAL EXPENDITURES	\$ 430,416	\$ 415,539	\$ 14,877

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 4,180	\$ 5,148	\$ 968
---	---	---	190,120	192,459	2,339
---	---	---	15,151	14,981	-170
---	---	---	53,306	54,537	1,231
---	---	---	13,281	13,722	441
---	---	---	4,025	4,428	403
---	---	---	25,000	33,067	8,067
---	---	---	86,434	102,170	15,736
---	---	---	10,000	9,092	-908
---	---	---	130	170	40
---	---	---	1,265	1,381	116
46,159	46,294	135	46,159	46,294	135
46,159	46,294	135	449,051	477,449	28,398
179,232	177,081	2,151	314,057	311,338	2,719
37,055	36,693	362	126,691	126,202	489
8,440	8,438	2	9,850	9,755	95
20,118	20,118	---	24,654	23,778	876
28,606	28,611	-5	221,117	209,917	11,200
1,917	1,847	70	3,742	2,902	840
11,926	10,957	969	13,281	12,578	703
369	369	---	3,869	3,183	686
---	---	---	818	---	818
---	---	---	---	---	---
\$ 287,663	\$ 284,114	\$ 3,549	\$ 718,079	\$ 699,653	\$ 18,426

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -27,524</u>	<u>\$ 15,616</u>	<u>\$ 43,140</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	27,524	---	-27,524
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>27,524</u>	<u>---</u>	<u>-27,524</u>
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u><u>\$ ---</u></u>	15,616	<u><u>\$ 15,616</u></u>
FUND BALANCE - BEGINNING OF YEAR		<u>61,304</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 76,920</u></u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -241,504	\$ -237,820	\$ 3,684	\$ -269,028	\$ -222,204	\$ 46,824
241,504	237,820	-3,684	269,028	237,820	-31,208
---	---	---	---	---	---
241,504	237,820	-3,684	269,028	237,820	-31,208
<u>\$ ---</u>	<u> ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	15,616	<u>\$ 15,616</u>
	<u> ---</u>			<u>61,304</u>	
	<u>\$ ---</u>			<u>\$ 76,920</u>	

DEBT RETIREMENT FUNDS

Debt Retirement Funds**COMBINING BALANCE SHEET****JUNE 30, 2005**

	Debt IV	Debt V	Debt VI	Durant	Totals
ASSETS					
Cash and Investments	\$ ---	\$ 95,329	\$ 19,518	\$ ---	\$ 114,847
Due from other Funds	---	---	5	---	5
Accounts Receivable	---	4,507	599	---	5,106
TOTAL ASSETS	\$ ---	\$ 99,836	\$ 20,122	\$ ---	\$ 119,958
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	5	---	---	5
TOTAL LIABILITIES	---	5	---	---	5
FUND EQUITY					
Fund Balance	---	99,831	20,122	---	119,953
TOTAL LIABILITIES AND FUND EQUITY	\$ ---	\$ 99,836	\$ 20,122	\$ ---	\$ 119,958

HANOVER-HORTON SCHOOL DISTRICT**Debt Retirement Funds****STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL****FISCAL YEAR ENDED JUNE 30, 2005**

	Debt IV		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 81,167	\$ 81,462	\$ 295
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	999	1,036	37
Earned Interest	2,754	2,765	11
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	84,920	85,263	343
EXPENDITURES			
Principal on Bonds	195,000	195,000	---
Interest on Bonds	9,165	9,165	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	1,350	693	657
TOTAL EXPENDITURES	205,515	204,858	657
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-120,595	-119,595	1,000
OTHER FINANCING SOURCES			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	-11,860	-13,123	-1,263
TOTAL OTHER FINANCING SOURCES	-11,860	-13,123	-1,263
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -132,455	-132,718	\$ -263
FUND BALANCE - BEGINNING OF YEAR		132,718	
FUND BALANCE - END OF YEAR		\$ ---	

Debt V			Debt VI		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 508,260	\$ 509,955	\$ 1,695	\$ 121,979	\$ 122,394	\$ 415
---	---	---	---	---	---
2,621	2,502	-119	739	920	181
4,490	6,340	1,850	1,035	1,343	308
---	---	---	---	---	---
---	---	---	---	---	---
515,371	518,797	3,426	123,753	124,657	904
275,000	275,000	---	50,000	50,000	---
310,746	310,745	1	78,856	78,855	1
---	---	---	---	---	---
2,000	395	1,605	1,300	250	1,050
587,746	586,140	1,606	130,156	129,105	1,051
-72,375	-67,343	5,032	-6,403	-4,448	1,955
---	---	---	---	---	---
11,860	13,123	1,263	---	---	---
---	---	---	---	---	---
11,860	13,123	1,263	---	---	---
<u>\$ -60,515</u>	-54,220	<u>\$ 6,295</u>	<u>\$ -6,403</u>	-4,448	<u>\$ 1,955</u>
	<u>154,051</u>			<u>24,570</u>	
	<u>\$ 99,831</u>			<u>\$ 20,122</u>	

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Durant		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---
Earned Interest	---	---	---
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	---	---	---
EXPENDITURES			
Principal on Bonds	---	---	---
Interest on Bonds	---	---	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	---	---	---
TOTAL EXPENDITURES	---	---	---
EXCESS REVENUE OVER <UNDER> EXPENDITURES	---	---	---
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ ---</u>	---	<u>\$ ---</u>
FUND BALANCE - BEGINNING OF YEAR		---	
FUND BALANCE - END OF YEAR		<u>\$ ---</u>	

Totals		
Budget	Actual	Favorable <Unfavorable>
\$ 711,406	\$ 713,811	\$ 2,405
---	---	---
4,359	4,458	99
8,279	10,448	2,169
---	---	---
---	---	---
724,044	728,717	4,673

520,000	520,000	---
398,767	398,765	2
---	---	---
4,650	1,338	3,312
923,417	920,103	3,314

<i>-199,373</i>	<i>-191,386</i>	7,987
-----------------	-----------------	-------

---	---	---
11,860	13,123	1,263
<i>-11,860</i>	<i>-13,123</i>	<i>-1,263</i>
---	---	---

<u><u>\$ -199,373</u></u>	<i>-191,386</i>	<u><u>\$ 7,987</u></u>
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311,339

\$ 119,953

CAPITAL PROJECT FUND

COMPARATIVE BALANCE SHEET**JUNE 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and Investments	\$ 921,657	\$ 566,844
Accounts Receivable	---	---
Due from Other Funds	---	400,000
TOTAL ASSETS	<u><u>\$ 921,657</u></u>	<u><u>\$ 966,844</u></u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
TOTAL LIABILITIES	<u>---</u>	<u>---</u>
 FUND EQUITY		
Fund Balance	<u>921,657</u>	<u>966,844</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 921,657</u></u>	<u><u>\$ 966,844</u></u>

HANOVER-HORTON SCHOOL DISTRICT

Capital Project Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---
Earned Interest	9,502	17,624	8,122	4,904
Miscellaneous	---	---	---	---
TOTAL REVENUE	9,502	17,624	8,122	4,904
EXPENDITURES				
Capital Outlay	200,000	62,811	137,189	86,941
TOTAL EXPENDITURES	200,000	62,811	137,189	86,941
EXCESS REVENUE OVER EXPENDITURES	-190,498	-45,187	145,311	-82,037
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	---	---	400,000
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	400,000
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -190,498	-45,187	\$ 145,311	\$ 317,963
FUND BALANCE - BEGINNING OF YEAR		966,844		
FUND BALANCE - END OF YEAR		\$ 921,657		

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES**JUNE 30, 2005****ASSETS**

Cash and Investments	\$ 207,759
Accounts Receivable	---
Due From Other Funds	---

TOTAL ASSETS	<u>\$ 207,759</u>
---------------------	--------------------------

LIABILITIES

Due to Other Funds	\$ ---
Due to Student Groups	207,759

TOTAL LIABILITIES	<u>\$ 207,759</u>
--------------------------	--------------------------

SUMMARY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2005

	Balance 6/30/04	Receipts	Disbursements	Balance 6/30/05
ASSETS				
Cash and Investments	\$ 228,014	\$ 342,415	\$ 362,670	\$ 207,759
Accounts Receivable	---	---	---	---
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 228,014	\$ 342,415	\$ 362,670	\$ 207,759
LIABILITIES				
Due to Other Funds	\$ ---	\$ ---	\$ ---	\$ ---
Due to Student Groups	228,014	342,415	362,670	207,759
TOTAL LIABILITIES	\$ 228,014	\$ 342,415	\$ 362,670	\$ 207,759

HANOVER - HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY	Due to Student Groups 6/30/04	Receipts	Disbursements	Due to Student Groups 6/30/05
Academic Boosters	\$ 1,684	\$ 1,000	\$ 1,216	\$ 1,468
Academic Service Learning	2,414	2,267	2,034	2,647
After Prom party	821	---	---	821
Alumni Account	3,481	3,862	---	7,343
Athletic JAVA	174	---	---	174
Athletic Tournaments	1,392	26,274	27,880	-214
Athletic Vending	3,228	17,379	18,215	2,392
Band Account	150	1,331	1,329	152
Band Fundraising	---	7,132	5,887	1,245
Benevolence	15	---	---	15
Calendar Sales	800	1,513	764	1,549
Cheerleaders	813	5,961	6,654	120
Choir	3,459	2,368	5,561	266
Class of 2003	2,940	---	2,940	---
2004	922	---	922	---
2005	4,489	3,711	3,102	5,098
2006	5,051	9,731	9,802	4,980
2007	1,562	7,925	3,998	5,489
2008	---	10,937	6,165	4,772
Competitive Grant (JCF)	180	---	---	180
Counseling - Edna	100	---	---	100
Drama Club	3,725	2,017	2,089	3,653
Drop-In Computer Lab	204	104	---	308
Earnings on Investments	8,312	10,780	9,440	9,652
Educational Fund Grants	1,502	3,075	3,630	947
Elementary	11,620	12,110	10,287	13,443
Elementary Classroom	1,374	1,569	2,300	643
Elementary Field Trips	1,328	3,334	1,906	2,756
Elementary Girls Basketball	1,893	12,164	10,959	3,098
Elementary Pop Fund	4,220	883	547	4,556
Elementary Staff Retirement	226	---	---	226
Elementary Student Council	3,395	10,208	10,138	3,465
H-H Renaissance Account	3,622	1,000	1,831	2,791
H-H Music Boosters	1,298	7,731	8,675	354
HS Art	33	---	---	33
HS Baseball	1,007	762	1,305	464
HS Baton	---	219	200	19
HS Bottle Refund	---	490	93	397
HS Business Manage Class	359	8,264	7,515	1,108
HS Dance Club	128	---	---	128
HS Football	114	1,551	986	679
HS French Club	7,600	2,930	10,050	480
HS Human Relations	2,308	1,000	352	2,956
HS Journalism	1,448	1,890	1,626	1,712
HS Miscellaneous	4,173	2,914	1,188	5,899
HS Music and Games	195	---	---	195
HS National Honor Society	355	2,106	1,745	716
HS Peer Listening	53	124	124	53
HS Portfolio Supplies	---	590	---	590
HS Tech Lab	838	---	340	498
HS Ski Club	194	---	---	194

<u>ACTIVITY</u>	<u>Due to Student Groups 6/30/04</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Due to Student Groups 6/30/05</u>
HS Softball	20	850	774	96
HS Spanish Club	382	8,224	8,307	299
HS Student Council	14,543	5,520	7,351	12,712
HS Teacher's Lounge	1,695	1,039	1,312	1,422
HS Web Site Develop	230	---	---	230
HS Weight Room	176	457	96	537
HS Wrestling	6	---	---	6
HS Yearbook	1,842	5,487	4,315	3,014
Independent Living	124	50	---	174
JCF Youth Mini Grant	73	---	---	73
Junior Pro Boys Basketball	2,130	7,350	5,395	4,085
Kids Club	12,168	24	2,197	9,995
Ladd Scholarship	430	---	---	430
Library Fund	6,011	15,713	17,468	4,256
Loss and Damage	6,079	3,208	757	8,530
6 th Grade Basketball Program	-58	4,305	2,220	2,027
Maintenance Rewards and Recognition	50	280	---	330
M. Bytnar Memorial Fund	417	---	17	400
MS Activity	11,232	24,987	24,812	11,407
MS Art Fund	59	---	---	59
MS Candy Store	453	---	453	---
MS Class of 2009	---	561	---	561
MS Cheerleading	444	6,732	7,133	43
MS Choir	---	5,481	2,672	2,809
MS Exploring Tech	194	---	194	---
MS Lego Club	39	141	---	180
MS Miscellaneous	2,909	2,076	1,117	3,868
MS Pop Machine	5,847	3,582	2,602	6,827
MS Popcorn Repair Fund	363	60	---	423
MS Rewards	1,497	1,623	1,646	1,474
MS Running Club	468	2,602	2,723	347
MS Skills Class	179	---	---	179
MS Student Council	8,828	9,981	9,173	9,636
MS Weight Training	753	---	---	753
MS Yearbook	717	2,497	2,341	873
McGee Scholarship L.E.	34,965	---	34,965	---
New Soccer Field	6,099	---	6,099	---
New Press Box	340	2,513	2,513	340
Night Lights	2,285	6,974	8,511	748
Destination Imagination	75	---	---	75
Pop Machine	1,132	5,132	4,230	2,034
PTA	7	198	198	7
RIOT Account	846	---	---	846
Robbie Curtis Charitable	---	500	496	4
Ruth Creps Scholarship	---	14,000	6,000	8,000
Soccer	606	9,090	9,083	613
Summer Lights	651	118	---	769
Supplies R Us	4,339	1,854	1,705	4,488
Volleyball Boosters	170	---	---	170
Wall of Fame	1,000	---	---	1,000
Total	\$ 228,014	\$ 342,415	\$ 362,670	\$ 207,759

STATEMENTS OF INDEBTEDNESS

BUS LOANS
YEAR ENDED JUNE 30, 2005

Balance Outstanding - June 30, 2005 **\$ 113,171**

Balance payable as follows:

LOAN	YEAR	INTEREST RATE	PRINCIPAL	INTEREST	TOTAL
0011-7	2005-06	2.36%	<u>\$ 39,014</u>	<u>\$ 934</u>	<u>\$ 39,948</u>
0010-9	2005-06	4.00%	10,049	1,255	11,304
	2006-07	4.00%	10,451	853	11,304
	2007-08	4.00%	<u>10,869</u>	<u>435</u>	<u>11,304</u>
			<u>31,369</u>	<u>2,543</u>	<u>33,912</u>
0009-1	2005-06	4.30%	9,981	877	10,858
	2006-07	4.30%	<u>10,411</u>	<u>448</u>	<u>10,859</u>
			<u>20,392</u>	<u>1,325</u>	<u>21,717</u>
0008-3	2005-06	5.30%	<u>22,396</u>	<u>1,187</u>	<u>23,583</u>
TOTAL			<u><u>\$ 113,171</u></u>	<u><u>\$ 5,989</u></u>	<u><u>\$ 119,160</u></u>

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

1999 REFUNDING DEBT

YEAR ENDED JUNE 30, 2005

Balance Outstanding - June 30, 2005

\$ 6,810,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2005 - 06	4.00%	\$ 299,882	\$ 465,000	\$ 764,882
2006 - 07	4.05%	281,283	465,000	746,283
2007 - 08	4.10%	262,450	465,000	727,450
2008 - 09	4.15%	243,385	460,000	703,385
2009 - 10	4.20%	224,295	455,000	679,295
2010 - 11	4.30%	205,185	450,000	655,185
2011 - 12	4.35%	185,835	445,000	630,835
2012 - 13	4.40%	166,477	440,000	606,477
2013 - 14	4.50%	147,118	465,000	612,118
2014 - 15	4.55%	126,193	460,000	586,193
2015 - 16	4.60%	105,262	455,000	560,262
2016 - 17	4.65%	84,333	450,000	534,333
2017 - 18	4.70%	63,407	450,000	513,407
2018 - 19	4.75%	42,258	445,000	487,258
2019 - 20	4.80%	21,120	440,000	461,120
		<u>\$ 2,458,483</u>	<u>\$ 6,810,000</u>	<u>\$ 9,268,483</u>

DURANT DEBT
YEAR ENDED JUNE 30, 2005

Balance Outstanding - June 30, 2005 **\$ 67,356**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 8,493	\$ 19,042	\$ ---
2005 - 06	4.761%	2,300	5,103	34,938
2006 - 07	4.761%	2,057	5,345	7,402
2007 - 08	4.761%	1,804	5,600	7,404
2008 - 09	4.761%	1,537	5,867	7,404
2009 - 10	4.761%	1,257	6,147	7,404
2010 - 11	4.761%	965	6,439	7,404
2011 - 12	4.761%	657	6,746	7,403
2012 - 13	4.761%	336	7,067	7,403
		<u>\$ 19,406</u>	<u>\$ 67,356</u>	<u>\$ 86,762</u>

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

2002 DEBT

YEAR ENDED JUNE 30, 2005

Balance Outstanding - June 30, 2005

\$ 1,855,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2005 - 06	3.00%	\$ 77,355	\$ 50,000	\$ 127,355
2006 - 07	3.25%	75,855	50,000	125,855
2007 - 08	3.50%	74,230	75,000	149,230
2008 - 09	3.65%	71,605	125,000	196,605
2009 - 10	3.85%	67,043	155,000	222,043
2010 - 11	4.00%	61,075	175,000	236,075
2011 - 12	4.10%	54,075	175,000	229,075
2012 - 13	4.25%	46,900	---	46,900
2013 - 14	4.25%	46,900	350,000	396,900
2014 - 15	4.50%	32,025	---	32,025
2015 - 16	4.50%	32,025	350,000	382,025
2016 - 17	4.65%	16,275	---	16,275
2017 - 18	4.65%	16,275	350,000	366,275
		<u>\$ 671,638</u>	<u>\$ 1,855,000</u>	<u>\$ 2,526,638</u>

Karl L. Drake, P.C.
Certified Public Accountant

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of Hanover-Horton School District as of and for the year ended June 30, 2005, and have issued our report thereon dated July 15, 2005. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hanover-Horton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hanover-Horton School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

July 15, 2005

Karl L. Drake, P.C.
Certified Public Accountant

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Email: kldrake@voyager.net

July 15, 2005

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of Hanover-Horton School District for the year ended June 30, 2005, and have issued our report thereon dated July 15, 2005. In planning and performing our audit of the financial statements, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Hanover-Horton School District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations, and to make suggestions to improve upon the existing internal control structure.

Financial Overview

The General Fund finished the year with a fund balance of \$2,025,653. This is an increase of \$184,368 over the prior year balance. The cafeteria fund ended with a fund balance of \$76,920, which is an increase of \$15,616 over the prior year balance. The balance in the debt retirement accounts decreased by \$191,386 to \$119,953. The capital projects fund ended the year with a fund balance of \$921,657. The District is in a healthy financial position. This is very important because of the uncertainties in the District's state funding due to financial challenges at the state level.

GASB 40

New GASB (Government Accounting Standards Board) pronouncements are occurring at a record pace. Several of them are not applicable to Hanover-Horton School District. GASB 40 requires the District to revise its investment policy to be in compliance. A copy of the revised policy has been provided to the Administration, and should be approved by the Board as soon as possible.

GASB 46

Statement 46 clarifies sections of GASB 34. It specifically states that governments are not allowed to reserve portions of net assets in the financial statements, unless the net assets are restricted by an external party. Fund balance designations can still be made on the fund financial statements, but cannot appear on the district-wide financial statements.

GASB 47

Statement 47 formalizes the necessary accounting treatment for termination benefits. If early retirement incentives, etc. are offered, or if employees are terminated with future payments due them, the liability for these future obligations must be entered into the accounting records when the agreements are formalized. The details of the timing of the accounting entries are outlined by GASB 47.

Future Challenges

The District faces continuing challenges in maintaining its financial stability. Health care costs have been increasing by over 10% per year for several years. The amount of cost increase is expected to continue. Also, the mandatory contribution for retirement is increasing. The rate for this past year was 14.87%. The current year has an increase to approximately 16.34%. Future years will continue to increase until the retirement fund is stable. Many Districts are facing considerable budget and program cuts to maintain financial solvency. Hanover-Horton Schools are in good enough financial position to withstand these increases in the short-term. Maintaining a balanced budget will be a challenge but is important to maintain long-term financial stability.

The above comments are intended for the use of the Board of Education and management of the Hanover-Horton School District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in black ink and is positioned above the printed name.

Karl L. Drake, CPA